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Date: 9/24/2013 11:30:25 AM
Subject: SALT LS: Part 1 of Washington Post series on tax lien sale abuses

On the day Bennie Coleman lost his house, the day armed U.S. marshals came to his door and ordered him off the property, he slumped in a folding chair across the street and watched the vestiges of his 76 years hauled to the curb.

Movers carted out his easy chair, his clothes, his television. Next came the things that were closest to his heart: his Marine Corps medals and photographs of his dead wife, Martha. The duplex in Northeast Washington that Coleman bought with cash two decades earlier was emptied and shuttered. By sundown, he had nowhere to go.

All because he didn't pay a \$134 property tax bill.

HOMES FOR THE TAKING:
LIENS, LOSS AND PROFITEERS — Part 1 of 3

Part 2: Suspicious bids go unnoticed in D.C.

Part 3: D.C. tax office mix-ups put homes in peril

More from the series: Officials react

The retired Marine sergeant lost his house on that summer day two years ago through a tax lien sale — [an obscure program](#) run by D.C. government that enlists private investors to help the city recover unpaid taxes.

For decades, the District placed liens on properties when homeowners failed to pay their bills, then sold those liens at public auctions to mom-and-pop investors who drew a profit by charging owners interest on top of the tax debt until the money was repaid.

But under the watch of local leaders, the program has morphed into a predatory system of debt collection for well-financed, out-of-town companies that turned \$500 delinquencies into \$5,000 debts — then foreclosed on homes when families couldn't pay, a Washington Post investigation found.

As the housing market soared, the investors scooped up liens in every corner of the city, then started charging homeowners thousands in legal fees and other costs that far exceeded their original tax bills, with rates for attorneys reaching \$450 an hour.

How you could lose your home

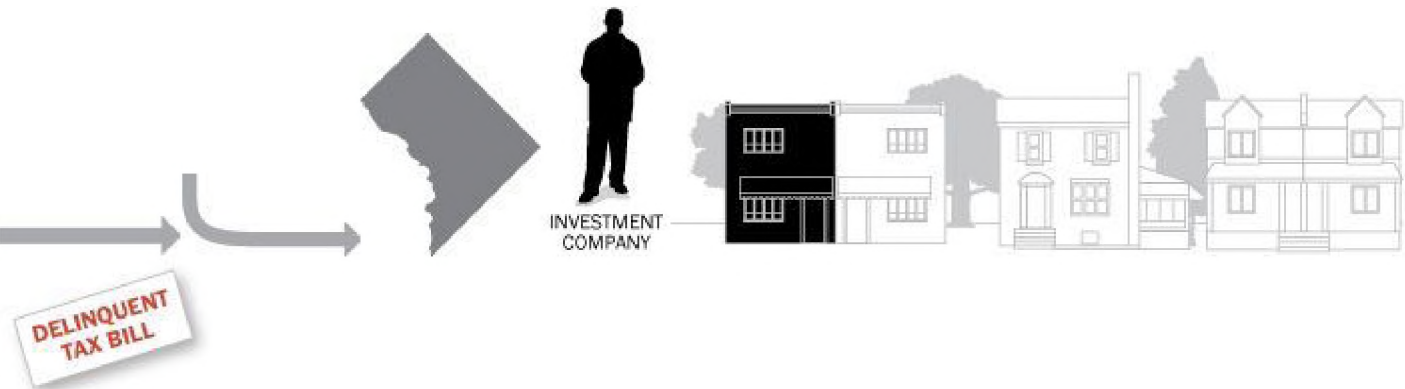
Property owners in the District risk losing their homes over relatively small amounts in unpaid property taxes. Here's a look at the process:

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If you don't pay your taxes, the District sells a lien for the tax debt to an investor, usually a

company. The investor gets a lien.



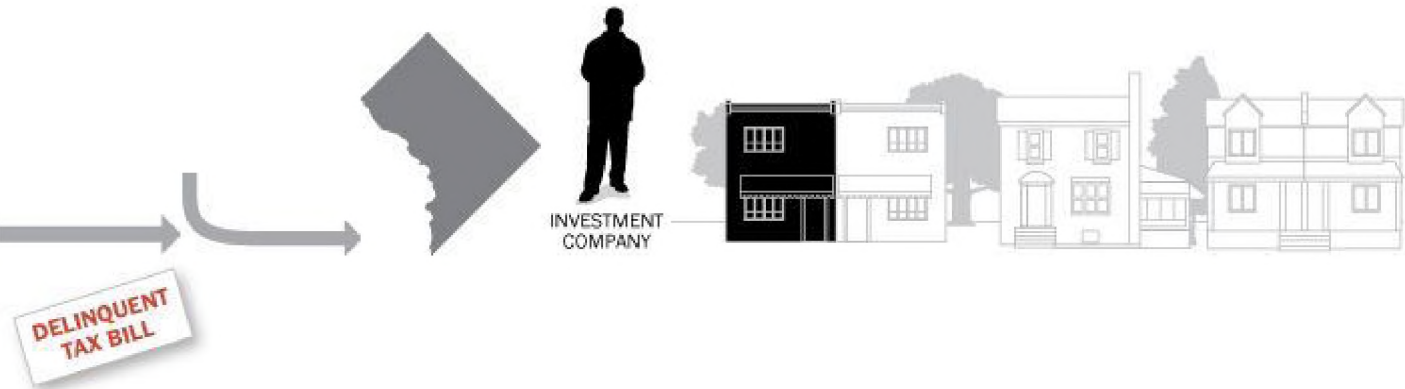
\$2,500

The typical lien amount, just a fraction of the property's value

13,000

Tax liens the District has sold from 2005 to 2012

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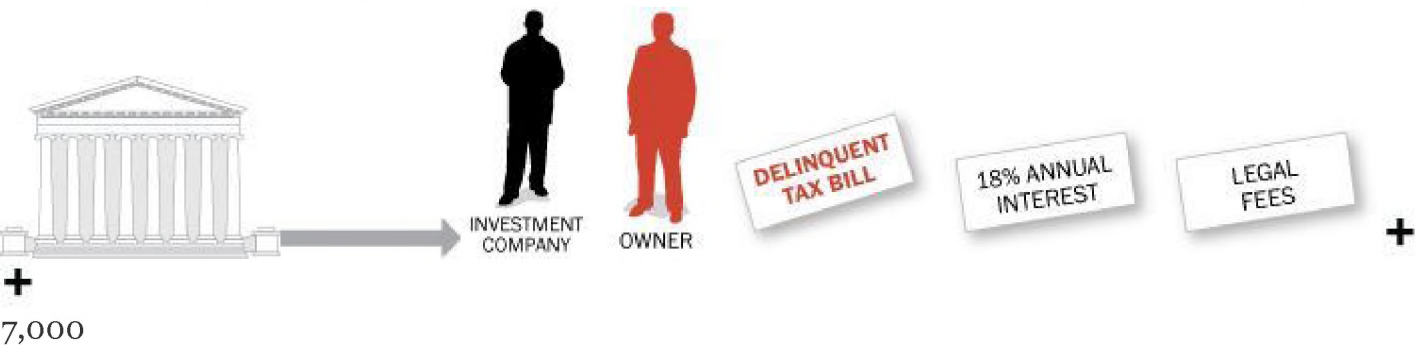
\$2,500

The typical lien amount, just a fraction of the property's value

13,000

Tax liens the District has sold from 2005 to 2012

If the tax bill plus interest goes uncollected for six months, the company can go to court to foreclose on the property. The investment company's legal fees are added to the owner's debt.



Tax lien cases went to court and exposed property owners to fees

\$5,000

Typical amount in legal fees, double the typical lien amount

If the owner can't pay all tax bills and interest, plus the legal bills and expenses of the investor, the owner can lose the property and the equity.



509

Tax lien foreclosures that have been identified by The Post

195

of those foreclosed properties were houses and apartments located mostly in minority neighborhoods

Note: The District no longer sells tax liens for delinquent tax bills under \$1,000. Lien amounts include property taxes, penalties and interest. The District doesn't track legal fees charged to homeowners. The estimates of legal fees is based on a Post study of more than 200 cases. The foreclosure and court cases are through mid-2013.

Source: Data from D.C. Office of Tax and Revenue and D.C. Superior Court

Families have been forced to borrow or strike payment plans to save their homes.

Others weren't as lucky. Tax lien purchasers have foreclosed on nearly 200 houses since 2005 and are now pressing to take 1,200 more, many owned free and clear by families for generations.

Investors also took storefronts, parking lots and vacant land — about 500 properties in all, or an average of one a week. In dozens of cases, the liens were less than \$500.

Coleman, struggling with dementia, was among those who lost a home. His debt had snowballed to \$4,999 — 37 times the original tax bill. Not only did he lose his \$197,000 house, but he also was stripped of the equity because tax lien purchasers are entitled to everything, trumping even mortgage companies.

“This is destroying lives,” said [Christopher Leinberger](#), a distinguished scholar and research professor of urban real estate at George Washington University.

Officials at the [D.C. Office of Tax and Revenue](#) said that without tax sales, property owners wouldn't feel compelled to pay their bills.

"The tax sale is the last resort. It's also the first resort — it's the only way in the statute to collect debt," said [deputy chief financial officer Stephen Cordi](#).

But the District, a hotbed for the tax lien industry, has done little to shield its most vulnerable homeowners from unscrupulous operators.

Foreclosures have upended families in some of the city's most distressed neighborhoods. Houses were taken from a housekeeper, a department store clerk, a seamstress and even the estates of dead people. The hardest hit: elderly homeowners, who were often sick or dying when tax lien purchasers seized their houses.

One 65-year-old flower shop owner lost his Northwest Washington home of 40 years after a company from Florida paid his back taxes — \$1,025 — and then took the house through foreclosure while he was in hospice, dying of cancer. A 95-year-old church choir leader lost her family home to a Maryland investor over a tax debt of \$44.79 while she was struggling with Alzheimer's in a nursing home.

Other cities and states took steps to curb abuses, such as capping the fees, safeguarding houses owned by the elderly or scrapping tax sales altogether and instead collecting the money themselves.

"Where is the justice? They're taking people's lives," said Beverly Smalls, whose elderly aunt lost her home in Northeast Washington. "It's just not right."

In a 10-month investigation, The Post chronicled years of breakdowns and abuses in a program that puts at risk one of the most fundamental possessions in American life.

Of the nearly 200 homeowners who lost their properties in recent years, one in three had liens of less than \$1,000.

More than half of the foreclosures were in the city's two poorest wards, 7 and 8, where dozens of owners were forced to leave their homes just months before purchasers sold them. One foreclosed on a brick house near the Maryland border with a \$287 lien and sold it less than eight weeks later for \$129,000.

More than 40 houses were taken by companies whose representatives were caught breaking laws in other states to win liens.

Instead of stepping in, the D.C. tax office created more problems by selling nearly 1,900 liens by mistake in the past six years — even after owners paid their taxes — forcing unsuspecting families into legal battles that have lasted for years. One 64-year-old woman spent two years fighting to save her home in Northwest after the tax office erroneously charged her \$8.61 in interest.

Photos: Homes for the taking

Under a D.C. program, owners have lost homes over debts as low as \$44



Stephen Cordi, with the D.C. tax office. Click on the image to view the gallery. (Lois Raimondo / The Washington Post)

Every Wednesday, homeowners plead their cases at D.C. Superior Court, where they are pitted against industry lawyers who have filed for more than 7,000 foreclosure cases in the past eight years alone. Families pace the hallways waiting for their names to be called in last-ditch efforts to rescue their homes.

“This is highway robbery,” said Brenda Adjete, who showed up in court last week to protect her home in Southeast Washington after her \$1,100 tax bill nearly quadrupled because of legal fees charged by the investor.

Tax lien purchasers defend the industry, saying that most people who buy liens are local investors just trying to earn interest — not take homes — and that the law gives owners six months to repay their debts before a foreclosure case can be filed.

“This is an opportunity to make some money, but it is also an opportunity for the city to get paid and to help its citizens,” said Richard Cockerill, a veteran bidder from Virginia.

In a written statement, the tax office added, “Property owners are given multiple opportunities to pay both before and after the tax sale.”

Officials also said the tax office has made improvements to the program in recent years, including additional warnings to homeowners before liens are sold, and the office recently stopped selling liens on houses for less than \$1,000.

But officials acknowledge that limit was set to manage the caseload and is not a permanent policy change.

At a [public hearing this past October](#), housing advocates presented a list of reforms to the D.C. Council, including capping the fees charged by purchasers and offering payment plans to struggling

homeowners. But the changes were never made.

“That’s a failure on the part of government,” said [Stephen Fuller](#), director of the Center for Regional Analysis at George Mason University. “This has punitive consequences. People have been damaged.”



Thomas McRae ran a flower shop on the first floor in this house on Sherman Avenue NW. But a tax lien investor from Florida foreclosed while McRae was under hospice care.

Liens are generally sold the year after a homeowner fails to pay a tax bill, for the same amount as the debt. Homeowners receive several warnings before their liens are put up at annual auctions.

Once a lien is sold, owners have six months to repay the investor with interest. If that does not happen, the investor can move to foreclose.

For years, the auctions came and went with little fanfare, drawing local investors who would plunk down a few hundred dollars to buy up liens in neighborhoods they knew well. Most were looking to earn the interest, and if there was a foreclosure, it was handled by the tax office.

But the work overwhelmed the agency, and in 2001, city leaders made a critical change: They told investors to head directly to court to file a foreclosure case.

The move empowered investors to start charging legal fees and court costs — a game changer that

allowed them to turn minor delinquencies into insurmountable debts.

Companies from Florida, Illinois, Maryland and New York came to town, prepared to spend millions.

In 2007, more than 150 purchasers spent five days competing for 2,000 liens, first on properties downtown near the Capitol, then Georgetown, followed by Dupont Circle, Chinatown and finally the neighborhoods near the Anacostia River, long stricken by poverty.

Where tax lien foreclosures occur in the District

Dots on the map show foreclosures that followed tax liens since 2005, and the shading represents number of pending foreclosure cases.

Minorities are hit the hardest

72%
of pending foreclosures are in neighborhoods where less than 20% of the population is white.
Areas with the most pending foreclosures

1
149
Deanwood, Burrville, Grant Park, Lincoln Heights, Fairmont Heights

2
141
Congress Heights, Bellevue, Washington Highlands

Search for an address or neighborhood

GO



+ -
close

Foreclosures since 2005

- Residential
- Vacant
- Commercial and other
- Pending foreclosures**
- 42050100+

Search for an address or neighborhood

GO

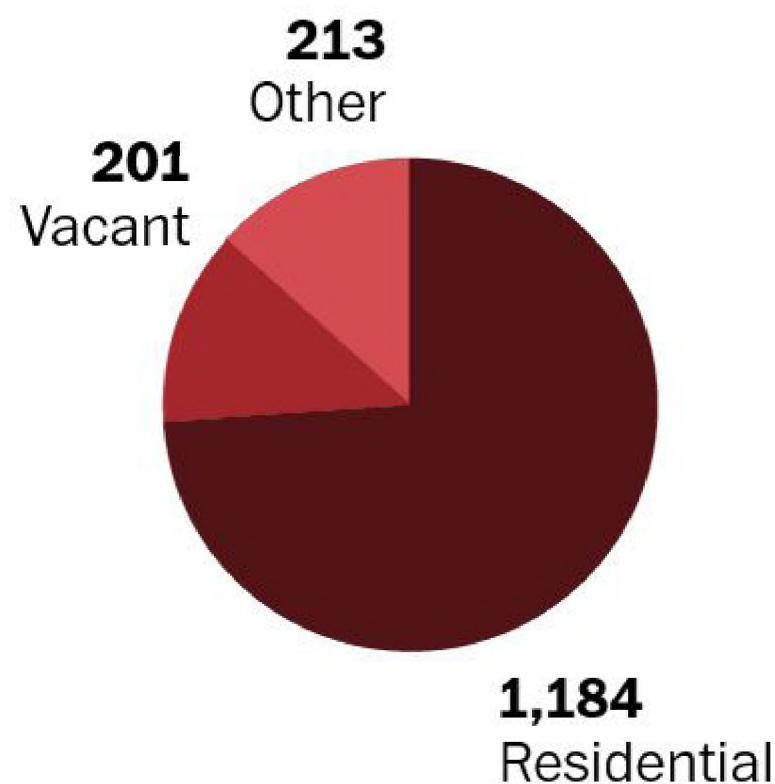
In the District of Columbia:

509

foreclosures since 2005

1,598

open cases in court



1,184residential

201vacant

213other

Source: Post analysis of data from D.C. Superior Court, D.C. Recorder of Deeds, U.S. Census.

When it was over, just six companies had swept the bidding, snaring two-thirds of the liens, which totaled \$5 million, on properties worth more than \$666 million.

One of those purchasers was under [federal investigation at the time](#) for rigging tax auctions in Maryland, where he was suspected of scheming to win liens — then demanding excessive fees from homeowners. Lawyers for a second firm would also come under investigation in the same case.

Their companies and others bought into every ward of the District in 2007, including Deanwood, one of the city's oldest predominantly African American neighborhoods. On long stretches of Dix Street, where the recession hit hard and lingered, 33 liens were sold between 2005 and 2008, on properties scattered amid food banks and “Cash 4 Gold” signs.

Across the city, the rate of foreclosure cases has nearly doubled in the past five years — in a single week in January, tax lien companies filed more than 180 cases. Of the 13,000 liens sold since 2005, more than half have ended up in court.

Your insight

Should D.C. offer protections for people who can't pay their taxes, including elderly, disabled or low-income residents? Explain.

See responses

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Jeanne Chamberlain

via [washingtonpost.com](#) September 8

This is an example of where the government should get involved to protect its people from unscrupulous investors. It is abhorrent that someone could be delinquent by less than \$1000 on a tax bill and lose their home.

Gwen Beckley

via [washingtonpost.com](#) September 8

Why can't they just file a lien against future sale or property transfers and charge the penalties and interest themselves? Like the IRS.

Graham Spark

via [washingtonpost.com](#) September 8

Isn't it interesting that, the moment the opportunity arises to make money at the expense of others, the vultures descend and the authorities elected to protect and defend are nowhere to be seen. Who in their right mind would have anyone rendered homeless for a debt of \$134?. Well someone did.

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With no caps on fees, families have paid a steep price, facing bills for legal fees and court costs often more than triple their original tax debts, The Post found. Rates for the attorneys hired by the tax lien companies have reached \$450 an hour.

Even the smallest expenses have been passed on — including the paper that ordered property owners to court at 25 cents per page. One attorney billed for preparing the bill itself — \$25.

Time and again, the bills came without receipts or breakdowns justifying the costs.

“I just don’t know what he’s trying to charge me for,” said longtime community activist Barbara Morgan, 80, standing outside the courtroom earlier this year with a \$2,700 legal bill that doubled the tax debt on her home of 50 years. “It’s ridiculous.”

Local judges have taken purchasers to task. One was so critical of the fees charged by Aeon Financial of Chicago, he slashed them in half last year. Aeon wanted \$6,300 in fees for a \$1,680 tax lien.

A senior attorney billed at \$450 an hour. A junior attorney charged \$325. Legal assistants tacked on \$110 an hour. Plus, there was \$800 in expenses, including \$27.60 for “dismissal costs.”

“Unreasonable,” Judge Joseph E. Beshouri said in his ruling.

In 2009, D.C. Attorney General Peter J. Nickles also stepped in, seeking an injunction against Aeon over fees that he called “unlawful” and “predatory.”

“Aeon’s excessive attorney’s fee demands are likely to result in at least some homeowners not being able to redeem homes,” according to the motion.

In one case, Steve Segears, who lives in the house his father bought after World War II, was charged \$5,500 in fees by Aeon, nearly double his \$2,900 tax bill.

“Enough is enough,” Michael J. Wilson, Segears’s attorney, wrote to the court. “The Aeon juggernaut keeps rolling along by demanding payment of unreasonable and extortionate attorneys’ fees and other alleged expenses, including those which have not actually been ‘incurred.’ ”

Aeon did not respond to repeated calls and letters seeking comment.

Other places acknowledged abuses years ago and took steps to guard against them. New York City won’t allow tax liens to be sold on homes owned by low-income seniors and the disabled, as well as veterans. Some counties in Michigan have scrapped tax lien sales altogether and collect the money themselves. Maryland, fearing that taxpayers were being gouged, limits the legal fees to \$1,500.

Most homeowners are in no position to fight and rely on the government to protect them from unfair practices, said Howard Liggett, former director of the [National Tax Lien Association](#), who has spoken out nationally against excessive fees.

But D.C. leaders have not provided key protections, including caps on fees.

“It’s embarrassing,” said Liggett, who is familiar with the District’s tax auctions and bidders. “You’re always going to have unscrupulous [investors]. You’ve got to self-police.”



Coleman walks to the store with his neighbor, Patricia Johnson. The retired veteran bought his duplex in Northeast Washington for \$57,500 with life insurance money that he received when his wife died of breast cancer.

Threatened with mounting fees, some families simply gave up. In court files and interviews, they described large bills and long battles with lawyers while interest grew on their tax debts.

“We just didn’t have the money to fight these people,” said Michael McRae, who tried unsuccessfully to save his brother’s house from a tax-lien firm from Florida.

In the past eight years, investors have foreclosed on a condominium just a few blocks from the U.S. Capitol and another just down the street from the Embassy of Peru, a single-family home near Rock Creek Park and dozens of houses in poor neighborhoods along the Anacostia River.

The Post found investors have taken nearly 200 homes since 2005, assessed at \$39 million. They sold most of them, sometimes within weeks, after paying off any back taxes or city fines.

Your insight

Should D.C. stop selling tax liens to private investors and instead collect the money itself?

Why?

[See responses](#)
[Add Comment](#)

Terence Brownow

via [washingtonpost.com](https://www.washingtonpost.com) September 8

It would be far better for the city to offer its citizens a way to pay their debts on time or at reduced rates. This way people can remain in their homes and communities are stabilized. Is this how we honor our veterans, the sick, and elderly, or people down on their luck? Heaven help us.

Interested Observer

via [washingtonpost.com](https://www.washingtonpost.com) September 8

It seems like in "hot" real estate markets, the tax lien sale process requires a greater level of government oversight. Otherwise, as this article makes all too clear, it's easy for savvy investment companies to use and abuse the process to their advantage.

Diane Bliss

via [washingtonpost.com](https://www.washingtonpost.com) September 8

The City should take back control of tax liens and disallow foreclosure by third parties as these third parties are obviously preying on low-income and minority owners while demonstrating predatory lending practices.

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One of the most aggressive investors was Heartwood, whose lawyers were investigated and disbarred as a result of Maryland's criminal bid-rigging case. Formerly a subsidiary of Florida's BankAtlantic Bancorp, Heartwood has taken more than 20 houses through foreclosure and sold them all, including a brick duplex in Northeast Washington with a \$535 lien for \$169,610.

One of the houses was owned by Michael McRae's brother, Thomas, a flower-shop owner, who was in and out of a coma and under hospice care while Heartwood was pressing to take his house over what began as a \$1,025 tax debt. Thomas McRae died in June 2006 — three months after a judge approved the foreclosure.

Family members found out and fought back, saying no one told them about the lien or foreclosure.

Heartwood eventually paid the family \$80,000 to settle the case and quickly sold the brick house on a bustling corner of Sherman Avenue NW for \$175,000. Longtime neighbors still recall how Thomas McRae had filled the sidewalk with flowers.

"We're just regular people, and we don't have \$200,000 to fight a big organization from Florida," his brother said.

In a written statement, the tax office said the \$1,025 tax bill was "not a small debt." A spokesperson for Heartwood declined to discuss the foreclosure cases but said the company is no longer buying tax liens in the District and Maryland.

Bennie Coleman was ousted from his house two years ago in a flurry of foreclosures that swept the poor neighborhoods of Ward 7.

The retired Vietnam veteran bought the tidy brick duplex in Northeast for \$57,500 with life insurance money that he received when his wife died of breast cancer in 1988.

Known in his working-class neighborhood as "Tops," he spent two decades in the house without a mortgage. But in recent years, Coleman began showing signs of dementia — he would forget to pay bills or buy food. His next-door neighbor would often bring him plates of chicken and carrots.

In 2006, he forgot to pay a \$134 tax bill, prompting the city to place a lien on the home and add \$183 in interest and penalties. His son paid the \$317 bill in 2009, records show, but that wasn't enough.

The Maryland company that had bought the lien had already gone to court to put a foreclosure in motion. To lift the lien, the company's lawyer was demanding steep legal fees and expenses— \$4,999.

The letter

Bennie Coleman's son wrote to the court in 2008 for help.

Civil ACTION # No 2008
CA 001572 (RP) Sept 24, 2008
(ACTION Involving Real Property)
Dear Judge Irving, I am
writing in regards to my
dad Mr. Bennie R. Coleman Sr.
I recently moved back into
town with my dad, and found
out he had fell behind in

Click on the image to read the letter.

Coleman's son couldn't pay and wrote to the court for help: "I would hate for him at his age to lose his home." One payment was made for \$700 in 2009, but when no additional payments followed, the court approved the foreclosure in June 2010.

His son couldn't be reached for comment. In the summer of 2011, federal marshals showed up at the door when Coleman refused to leave.

"He had no clue what was going on," said neighbor Patricia Johnson. "I went over and told my mom,

‘Looks like they are going to get Tops out.’ ”

That night, he slept in a chair on the front porch.

The court later appointed a conservator, who told The Post that Coleman was incapable of responding to the emergency unfolding in his life, including showing up in court to fight for his house.

“He had no chance,” said attorney Robert Bunn. “He has dementia. He did not understand the ramifications of what was going to happen to him.”



On an overcast morning earlier this year, Coleman walked past his old house on the way to the corner store. But he said he could not look at it — the memories were too painful.

The Maryland company that took Coleman’s house sold it for \$71,000 two months after evicting him. The company was owned by Steven Berman, who was [convicted in 2008](#) in the Maryland bid-rigging case. He declined to comment. The law firm for Berman’s company said it was willing to reduce Coleman’s bill to \$3,500 but could not reach him.

The tax office would not comment on the case, saying only that the lien would “not have been sold if the tax sale were today” because it was less than \$1,000, the agency’s current threshold.

Coleman said he thought he would stay in his house for many more years, sipping cold drinks on the porch and talking to neighbors over the fence. Now, he’s in a group home one mile from the home that is no longer his.

On an overcast morning earlier this year, he walked past the old house, now boarded up, on the way to the corner store to buy margarine and a bag of sugar. He looked back briefly, then turned away.

“I have nothing,” he said.

Jennifer Jenkins, Ted Mellnik and Timothy R. Smith contributed to this report.

About this story

The Washington Post spent 10 months examining the District's tax lien program, which has been used by the city to recover unpaid property taxes for more than 100 years.

Reporters began by examining every lien sold on properties since 2005 — 13,000 in all. About half were lifted after property owners paid their back taxes, plus interest. The rest turned into foreclosure cases, most often affecting homes in the poorest neighborhoods of the city.

Through a computer analysis, the newspaper found about 1,200 active foreclosure cases on houses, plus hundreds more affecting land, storefronts and commercial buildings.

To find the nearly 200 homes ultimately taken by investors, reporters manually combed through thousands of property records at the D.C. Recorder of Deeds and the District's Real Property Assessment Database.

The Post also studied how much tax lien purchasers charged homeowners after they moved to foreclose in court, obtaining more than 200 fee statements from court cases, families, lawyers and housing advocates.

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